



## Health Services

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April 17, 2007

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.   
Director and Chief Medical Officer

SUBJECT: **DEPARTMENT OF HEALTH SERVICES  
FISCAL OUTLOOK UPDATE**

Bruce A. Chernof, MD  
Director and Chief Medical Officer

John R. Cochran III  
Chief Deputy Director

Robert G. Splawn, MD  
Senior Medical Officer

Attached (Attachments A1-A3) for your information is a Summary of Changes in the Department of Health Services (DHS) Fiscal Outlook since our last report, through March 30, 2007.

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In the December 12, 2006 DHS Fiscal Outlook and Strategic Plan Update, the Department committed to working with the Chief Administrative Office (CAO) to develop a balanced proposed budget for Fiscal Year (FY) 2007-08. This memo includes an updated fiscal outlook showing a balanced DHS budget for FY 2007-08 (see line 26 on Attachment A1).

While there have been developments subsequent to the completion of the CAO Proposed Budget that could result in a funding shortfall, the Department expects them to be offset through additional Deficit Management Plan Actions. However, the fiscal outlook does not include the impact of pending salary and classification changes.

To address this issue, DHS will continue working with the CAO to develop recommended budgetary adjustments as part of the FY 2007-08 budget development process.

As for the five-year cumulative Fiscal Outlook, following the adjustments shown on Attachments A1 and A2, including the remaining proposed Deficit Management Plan Actions that are not included in the CAO Proposed Budget, the cumulative shortfall (line 44 on Attachment A2) through FY 2010-11 is now estimated at \$651.3 million. This is an improvement of \$252.5 million when compared to the previous shortfall of \$903.8 million included in the December 12, 2006 Fiscal Outlook.



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<u>Action</u>	<u>Estimated Cumulative \$ Impact Through Fiscal Year 2010-11 (\$ In Millions)</u>
<b>Estimated Cumulative Funding Shortfall Through Fiscal Year 2010-2011</b>	<b>\$ (786.7)</b>
Deficit Management Plan Actions Not Included in the CAO Proposed Budget:	
Conversion of Nursing Registries to County Employees	\$ 19.0
Reduction in Medi-Cal TAR Denials	0.4
Resolution of Mental Health Services Issues	69.0
Unused Fiscal Year 2005-06 County Contribution	<u>47.0</u>
<b>Adjusted Cumulative Shortfall</b>	<b>\$ (651.3)*</b>
Pending Federal Rule Limiting Medicaid Reimbursements	( <u>821.0</u> )
<b>Adjusted Cumulative Shortfall</b>	<b>\$( 1,472.3)</b>

\* The December 12, 2006 DHS Fiscal Outlook and Strategic Plan Update memo referenced a comparable Adjusted Cumulative Shortfall of \$903.8 million.

#### Managed Care Rate Supplement

The Managed Care Rate Supplement is still pending Federal approval. The Department and the CAO are currently working with the State to ensure this issue is forwarded to CMS, the County's Federal legislative analysts, and your Board, prior to your visit to Washington D.C. If the Managed Care Rate Supplement is not granted, the Department's financial position will worsen by \$286.0 million in FY 07-08 (\$143.0 million in FY 06-07 and 07-08 respectively). This loss could be reduced by up to \$50.0 million for each of these two fiscal years if the Department is allowed to retain the County General Fund match contribution currently included in our budget.

#### CMS Extension Agreement for MLK-Harbor Hospital

The attached fiscal outlook includes the estimated impact of the CMS Extension Agreement for MLK-Harbor Hospital of \$12.0 million [\$8.0 million for FY 06-07 and \$4.0 million for FY 07-08 (see line 29 on Attachment A2)]. This amount assumes we are able to get legislation to hold MLK-Harbor harmless for the loss of DHS and SNCP funds under the CMS Extension Agreement in FY 07-08. At a conference call with some members of the California Association of Public Hospitals (CAPH) Board on April 13, 2007 they indicated initial support for the concept of holding MLK-Harbor harmless. In the final agreement with CMS, there was a liberal interpretation of an emergency service billable under the Medi-Cal and Medicare programs, which resulted in a less than previously anticipated loss of revenue under the agreement.

Health Care Coverage Initiative (CI)

The Department's application for the Health Care Coverage Initiative, a federally-funded program intended to increase health care coverage for low-income people who are uninsured, was awarded by the State of California on March 29, 2007. The Department is eligible to receive a maximum of \$54.0 million of gross revenue per year, for a three year period, which is offset by additional spending of approximately \$23.6 million per year, resulting in net revenue of \$30.4 million per year. The Department is in the process of compiling these costs to be included in our FY 07-08 Final Change Budget Request for your Board's consideration in June 2007. The CI will serve adult patients with selected chronic diseases, including diabetes, asthma, and hypertension, who are seen in DHS and PPP facilities and have no other coverage. These patients will be enrolled into a comprehensive outpatient program that will provide targeted services based on each patient's burden of illness and health care utilization.

The Department must aggressively begin the work required to ensure we are able to implement the proposed programs by September 1, 2007 and fully maximize the available funds.

Federal Deficit Reduction Act (DRA) – Medi-Cal Citizenship Verification

The California Department of Health Services (CDHS) has not as yet released for implementation its DRA - Medi-Cal Citizenship Verification All County Welfare Directors Letter (ACWDL) instructions to the Los Angeles County Department of Public Social Services; however, based on the CDHS February 7, 2007 final draft, the Department believes the financial impact and new workload can be minimized if the CDHS provides an automated means to verify citizenship for all California-born residents as anticipated. We will update our fiscal outlook regarding this issue upon receipt of the CDHS final implementation instructions.

Other Items Not Included in the DHS Fiscal Outlook

There are various healthcare proposals being considered in the California Legislature that could have a material impact on the Department's Fiscal Outlook in the future, but not enough details are known to forecast the impact to the Department at this time. The Department is participating in and monitoring the developments of these proposals.

Please let me know if you have any questions or desire further information.

BAC:aw  
(FISCAL OUTLOOK 4-17-07v9)

Attachments

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK**  
 DECEMBER 4, 2006 THROUGH MARCH 30, 2007

		Fiscal Year / Columns / \$ in Millions				
		06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)
		Total / (6)				
(1)	Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 12/4/06 <sup>(A)</sup>	\$ 110.0	\$ (316.1)	\$ (768.0)	\$ (1,165.5)	\$ (1,626.1)
<b>Inclusion of Deficit Management Plan Actions into the CAO Proposed Budget *</b>						
<u>Internal</u>						
(2)	Nursing Registry Conversion to County Emp. <sup>(B)</sup>	2.3	2.3	2.3	2.3	2.3
(3)	Ancillary Services (Pharmacy, Laboratory, and Standardized Medical Supplies) <sup>(C)</sup>	4.9	5.9	5.9	5.9	5.9
(4)	10% Reduction in TAR Denials <sup>(D)</sup>	3.4	3.3	3.3	3.3	3.3
<u>Subject to State/Federal Approval</u>						
Managed Care Rate Sup						
(5)	Base Adjustment <sup>(E)</sup>	6.0	6.0	6.0	6.0	6.0
(6)	Proposed Recapture of CBRC Managed Care Gap Payment Loss	43.0	43.0	43.0	43.0	43.0
(7)	Medi-Cal Redesign Coverage Initiative Application Net Benefit approved on March 29, 2007 <sup>(F)</sup>	-	30.4	30.4	30.4	30.4
<u>Other Adjustments Included in the CAO Proposed Budget</u>						
(8)	Adjust employee benefits per the CAO Proposed Budget for April 17, 2007. Adjustments primarily related to reduced retirement costs (\$35.0M), reduced workers compensation costs (\$5.3M) and various other changes (\$1.1M) and are extended through FY 10-11	-	41.4	46.3	51.1	55.6
(9)	CAO increase in County contribution per the CAO Proposed Budget for April 17, 2007.	-	30.0	30.0	30.0	30.0
(10)	Include Tobacco Settlement funds to offset the net cost of the MetroCare implementation in FY's 07-08 and 08-09.	-	50.0	25.0	-	-
(11)	Adjust MetroCare costs to update FY 05-07 estimates and CAO inclusion of MetroCare savings related to the reduction of interns & residents items per the CAO Proposed Budget for April 17, 2007. <sup>(G)</sup>	13.6	9.7	-	-	-
(12)	Adjust salary savings at DHS facilities per the CAO Proposed Budget for April 17, 2007.	-	9.6	9.6	9.6	9.6
(13)	Adjust CBRC revenue estimates in January 2007 based on a revised settlement for FY 00-01, reflect the final settlement for FY 02-03 and extended through FY 10-11.	17.9 <sup>(H)</sup>	0.3	0.6	0.9	1.3
(14)	CAO increase Vehicle License Fees per the CAO Proposed Budget for April 17, 2007. <sup>(I)</sup>	-	4.6	4.6	4.6	4.6
(15)	Adjust salary COLA per the CAO Proposed Budget for April 17, 2006. Excludes the cost impact of pending salary and classification changes.	-	(4.4)	(4.4)	(4.4)	(4.4)
(16)	Adjust S&S CPI per the CAO Proposed Budget for April 17, 2007 and extended through FY 10-11.	-	(3.8)	(3.9)	(4.0)	(4.2)
(17)	Adjust capital projects per the DHS Budget Request on January 30, 2007 and restate estimates for FY's 08-09 through 10-11.	0.3	2.8	17.1	(10.5)	(4.1)
(18)	CAO adjust capital projects per the CAO Proposed Budget for April 17, 2007.	-	2.6	-	-	-
(19)	CAO increase Sales Tax revenue per the CAO Proposed Budget for April 17, 2007. <sup>(J)</sup>	-	2.5	2.5	2.5	2.5
(20)	Adjust OMD/Transition costs for the LAC+USC Replacement Facility per the CAO Proposed Budget for April 17, 2007 and update the estimates for FY's 08-09 through 10-11 per facility estimates.	-	(8.5)	7.9	(2.4)	(7.7)
(21)	Close the budget gap at JCHS with additional funding from the Probation Department per the CAO Proposed Budget for April 17, 2007. Since this amount has not been approved by the Probation Department, this amount is subject to removal during the Final Change Budget.	-	4.9	4.9	4.9	4.9
(22)	Adjust Orthopedic services at OVA/UCLA to reflect the opening of 3 beds in FY 07-08 and 2 beds in FY 08-09 per the DHS Budget Request on January 30, 2007. Due to Harris/Rodde bed reductions at LAC+USC, these patients can no longer be transferred to LAC+USC and must be served at OVA/UCLA.	-	1.2	0.7	0.7	0.7
(23)	CAO adjust the opening of 3 Orthopedic services beds at OVA/UCLA to exclude 17 positions per the CAO Proposed Budget for April 17, 2007.	-	0.8	0.8	0.8	0.8
(24)	Other changes included in the CAO Proposed Budget for April 17, 2007.	-	(6.8)	(2.4)	(2.4)	(2.4)
(25)	Forecast improvement/(reduction) roll-forward	-	91.4 <sup>(K)</sup>	319.2 <sup>(L)</sup>	549.4 <sup>(M)</sup>	721.7 <sup>(N)</sup>
(26)	Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per the CAO Proposed Budget <sup>(A)</sup>	\$ 201.4	\$ 3.1	\$ (218.6)	\$ (443.8)	\$ (726.3)

ATTACHMENT A1

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK  
DECEMBER 4, 2006 THROUGH MARCH 30, 2007

	Fiscal Year / Columns / \$ In Millions					
	06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)	Total / (6)
(27) Revised Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - per the CAO Proposed Budget <sup>(A)</sup> (cont.)	\$ 201.4	\$ 3.1	\$ (218.6)	\$ (443.8)	\$ (726.3)	\$ (726.3)
<u>Potential Developments Subsequent to CAO Proposed Budget Cutoff</u>						
(28) Include the FY 07-08 <u>LAC+USC Transition capital projects</u> dated January 2, 2007.	-	(23.1)	-	-	-	(23.1)
(29) Adjust MetroCare to reflect the <u>CMS Extension Agreement</u> approved on March 30, 2007.	(8.0)	(4.0)	-	-	-	(12.0)
(30) Include Tobacco Settlement funds to offset the revenue lost under the <u>CMS Extension Agreement</u> .	8.0	4.0	-	-	-	12.0
(31) Include the impact of the <u>Pharmacist COLA</u> approved by the Board.	(1.5)	(2.3)	(2.7)	(2.7)	(2.7)	(11.9)
(32) Restore CAO adjusted <u>capital projects</u> per the DHS Budget Request on January 30, 2007.	-	(2.6)	-	-	-	(2.6)
(33) Restore CAO adjusted <u>QMDI/transition costs</u> for the LAC+USC Replacement Facility per the DHS Budget Request on January 30, 2007.	-	(9.8)	-	-	-	(9.8)
(34) Reduce use of Tobacco Settlement funds related to the implementation of <u>MetroCare</u> to offset savings included in the CAO Proposed Budget for April 17, 2007.	-	(9.7)	-	-	-	(9.7)
(35) Restore CAO excluded 17 positions for the opening of 3 <u>Orthopedic services</u> beds at OV/UCLA per the DHS Budget Request on January 30, 2007.	-	(0.8)	(0.8)	(0.8)	(0.8)	(3.2)
(36) Change in <u>current year operating forecast</u> received in February 2007 / restore various minor budget requests included in the CAO Proposed Budget for April 17, 2007. <sup>(A)</sup>	7.9	(0.8)	(2.4)	(2.4)	(2.4)	(0.1)
(37) Forecast improvement/(reduction) roll-forward	-	6.4 <sup>(A)</sup>	(42.7) <sup>(A)</sup>	(48.6) <sup>(A)</sup>	(54.5) <sup>(A)</sup>	-
(38) Adjusted Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - 3/30/07 <sup>(A)</sup>	\$ 207.8	\$ (39.6)	\$ (267.2)	\$ (498.3)	\$ (786.7)	\$ (786.7)
<u>Proposed/Potential Deficit Management Plan Actions (Not Included in the CAO Proposed Budget)</u>						
<u>Internal</u>						
(39) Conversion of Nursing Registries to County Employees	-	0.7	3.2	6.0	9.1	19.0
(40) 10% Reduction in TAR Denials <sup>(A)</sup>	-	0.1	0.1	0.1	0.1	0.4
(41) Closure of Mental Health Services <sup>(A)</sup>	-	16.5	17.0	17.5	18.0	69.0
(42) Unused FY 05-06 County Contribution <sup>(A)</sup>	-	47.0	-	-	-	47.0
(43) Forecast improvement/(reduction) roll-forward	-	- <sup>(A)</sup>	64.3 <sup>(A)</sup>	84.6 <sup>(A)</sup>	108.2 <sup>(A)</sup>	-
(44) Adjusted Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - 3/30/07 <sup>(A)</sup> If all remaining internal actions are successful	\$ 207.8	\$ 24.7	\$ (182.6)	\$ (390.1)	\$ (651.3)	\$ (651.3)
(45) Pending Federal Rule Limiting Medicaid Reimbursement to Public Hospitals to Medicaid Cost <sup>(A)</sup>	-	(153.0)	(212.0)	(228.0)	(228.0)	(821.0)
(46) Forecast improvement/(reduction) roll-forward	-	- <sup>(A)</sup>	(153.0) <sup>(A)</sup>	(365.0) <sup>(A)</sup>	(593.0) <sup>(A)</sup>	-
(47) Adjusted Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - 3/30/07 <sup>(A)</sup> If all remaining Internal actions are successful and pending Federal rule adopted	\$ 207.8	\$ (128.3)	\$ (547.6)	\$ (983.1)	\$ (1,472.3)	\$ (1,472.3)

ATTACHMENT A2

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK  
DECEMBER 4, 2006 THROUGH MARCH 30, 2007

Notes	Excluding the increase in Nursing Registry Conversion to County Employees savings for FY 07-08, the closure of mental health services, and the unused FY 05-06 County contribution for the Managed Care Rate Supplement.
(iv)	- Assumes CBRC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 and FY 06-07 Adopted State Budgets. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval.
	- Includes estimated additional Medi-Cal Redesign funding, beyond pro Medi-Cal Redesign Medi-Cal revenue levels, of \$132.5M, \$127.1M, \$139.1M, \$131.0M, and \$147.4M for FY's 06-07 through 10-11, respectively (amounts are adjusted in FY 09-10 to reflect the closure/transfer of Rancho).
	- Does not include the cost impact of pending salary and classification changes.
(vi)	Reflects the conversion of nursing registrars to County employees. Utilization of nursing registrars are to be reduced by 5% in both FY's 06-07 and 07-08, and 7.5% in FY's 08-09 through 10-11, and will be offset with additional salaries for County employees. This amount is already included in the Final Budget for FY 2006-07, however is being shown here to ensure that the Fund Balance shown on line (2b) matches the CAO Proposed Budget for FY 2007-08.
(v)	\$1.6 million of this amount is already included in the Final Budget for FY 2006-07, however is being included here to ensure that the Fund Balance shown on line (2b) matches the CAO Proposed Budget for FY 2007-08.
	Reflects savings for LAC-USC, HNUCLA, and OVAHCLA. The CAO excluded savings related to MLK-H and RLA from the CAO Proposed Budget since they did not feel they were meeting their savings targets.
(v)	The "base" amount for the managed care rate supplement of \$470 million (\$94 million per year x 5 years) is also "subject to State/Federal approval", but is included in the cumulative fund balances/shortfalls on line (1).
(vii)	Reflects the net revenue from the Coverage Initiative award of \$54.0M offset by \$23.6M in new program spending. FY 10-11 amount assumes Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.
(vi)	DHS intended to use Tobacco Settlement funds to offset the net cost of implementing the MetroCare plan which would be budget neutral to DHS. This adjustment by the CAO includes savings related to implementing MetroCare, however does not include various additional costs that are to be reconsidered during the Final Changes Budget Request. Ultimately, DHS is not estimating savings related to MetroCare for FY 07-08.
(viii)	FY 06-07 primarily reflects a revised settlement amount for FY 06-07, and includes minor adjustments for FY's 02-03 through 06-07 based on the final settlement for FY 02-03.
(ix)	Due to the pending Medi-Cal rule and the President's Budget, the source of Intergovernmental Transfers (IGTs) could be limited to Property Tax. Therefore, by receiving more Property Tax in place of Realignment funding, DHS may have increased potential opportunities to use IGTs.
(x)	These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$91.4 million in FY 07-08 is \$201.4 million - \$110.0 million from FY 06-07.
(xi)	Includes the reclass of nursing recruitment items, physician salary changes at HNUCLA, the Office of Planning, and reversal of the CAO's estimated actual adjustment.
(xii)	Reflects savings for MLK-H and RLA. The CAO excluded savings related to MLK-H and RLA from the CAO Proposed Budget since they did not feel they were meeting their savings targets. However, the Department is expecting the facilities to meet their targets and is continuing to include those savings.
(xiii)	Includes savings from the closure of inpatient services (\$27.0M) and outpatient services (\$0.9M) offset by the cost of closing the psych emergency rooms of (\$11.4M). Amounts are for FY 07-08 and increased by a 3% COLA in FY's 08-09 through 10-11.
(xiv)	This amount relates to the unused County contribution for the Managed Care Rate Supplement for FY 05-06. This amount is reserved in the County general fund in a designation account for DHS.
(xv)	Amounts reflect the impact of reduced Safety Net Care Pool funds due to limited availability under the pending Federal rule.

Worksheet: December 4, 2006 through March 30, 2007  
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